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ABSTRACT

This paper examines the politics of special education finance reform in three states (Oregon, Pennsylvania, and Vermont) that have enacted substantial legislative change within the past 5 years. These case studies were extracted from presentations made by the three state directors of special education at a 1994 conference. Each case study includes two sections. The first section provides a brief description of the history and rationale for change in each state and an overview of the current formula. The second section comprises each state director's description of how change was accomplished and the lessons learned that pertain to the politics of special education finance reform. Following the three state profiles is a series of questions accompanied by the directors' replies. Several common elements for successful reform emerge from the three studies. These include: (1) the importance of timing in overcoming contrary pressures and successfully implementing special education finance reform; (2) the importance of public relations in successfully legislating reform; (3) the need for an understanding and resolution of the politics of the situation; and (4) the need for postreform evaluative data. (Contains 15 references.) (DB)

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State Analysis Series

The Politics of Special Education Finance Reform in Three States

Thomas B. Parrish
Deborah L. Montgomery
March 1995

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Center for Special Education Finance

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The Center for Special Education Finance (CSEF) was established in October 1992 to address a comprehensive set of fiscal issues related to the delivery and support of special education services to children throughout the U.S. The Center's mission is to provide information needed by policymakers to make informed decisions regarding the provision of services to children with disabilities, and to provide opportunities for information sharing regarding critical fiscal policy issues.

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Contents

I. Introduction 1

II. Oregon 3

Background of Reform 3

Politics of Reform: Narrative of Oregon State Director, Karen Brazeau 4

III. Pennsylvania 7

Background of Reform 7

Politics of Reform: Narrative of Pennsylvania State Director, Michele DeSera 11

IV. Vermont 15

Background of Reform 15

Mainstream Block Grant 19

Extraordinary Service Reimbursement 19

Intensive Services Reimbursement 19

Politics of Reform: Narrative of Vermont State Director, Dennis Kane 22

V. Cross-State Reform Questions 25

VI. Summary and Conclusions 31

References 33

I. Introduction

With over one-half of the states in the United States reporting that they are investigating ways to change current special education funding systems, it appears that we are in a period of unprecedented reform (Parrish, 1994). This high level of interest in reconceptualizing special education finance is also evident at the national level as the federal government considers the merits of the current funding provisions of the Individuals with Disabilities Education Act (Parrish & Verstegen, 1994). A number of reform proposals are being considered across both of these levels of government, and although the specific nature of these reforms varies, one element common to all is the politics of reform. Since education is the largest, single state-level public budget item in many states, any reconsideration of the basis for funding education can quickly become contentious. When these public finance issues pertain specifically to programs for special education students, with an entitlement under the Individuals with Disabilities Education Act (IDEA) and many vocal and well-organized advocates, the tensions associated with the ensuing negotiations are often likely to become particularly pronounced. Changes to the status quo are often unwelcome. As described by the State Director of Special Education in Pennsylvania, "It's very easy to make a case against reforming special education finance."

The purpose of this paper is to present a discussion of the politics of special education finance reform in three states that have enacted substantial legislative change within the past 5 years. It will be presented through three brief case studies of how special education finance reform was enacted in Oregon, Pennsylvania, and Vermont, as described by the State Director of Special Education in each state. These case studies are extracted from presentations made by these three directors at a session on the *Politics of Special Education Finance Reform* at the 1994 Spring Leadership Conference sponsored by the Office of Special Education Programs (OSEP) of the U.S. Department of Education.

Although they represent the specific experiences of these states, these case studies provide guidance to other special education directors currently attempting to enact special education finance change in their states.

Each of the following three case studies include two sections. The first provides a brief description of the history and rationale for change in each state and an overview of the current formula. For each of these three states, the history, objectives, and outcomes of reforms are somewhat different. The second section is a description, provided by the state director of special education, of how change was accomplished and the lessons learned that pertain to the politics of special education finance reform.

Following the three state profiles is a series of questions directed at the three state directors and their replies. The paper concludes with a brief summary.

II. Oregon

Background of Reform

Local property taxes have historically contributed approximately 80 percent of the total resources used to support Oregon's K-12 public schools. Special education funds were provided by the state through grants-in-aid specifically targeted for serving children with disabilities. The grants-in-aid were intended as reimbursements for the allowable excess costs of providing special education and were awarded directly to local school districts and intermediate units.

The evolution of Oregon's prior financing method for special education was described as "patchwork" and "piecemeal" rather than the result of thoughtful planning (Brazeau, 1993). Over the years, this system was blamed for creating a "tremendous paperwork burden" at both the state and local levels. In addition, due to the fact that the special education grants-in-aid did not take into account a district's ability to pay, higher spending districts were receiving a greater proportion of state reimbursement than lower spending districts. The resulting inequity across districts became one of the major driving forces for statewide reform.

Lawmakers, school personnel, and key advocacy groups were involved in the planning for Senate Bill 814, enacted in 1991, which established a comprehensive restructuring of the funding system. A new State School Fund became operative in July 1992, replacing the Basic School Support Fund and distribution formula.

The new system provides funds for special education by granting districts two times the regular per student allocation for every identified special education student (i.e., a funding weight of 2.0), up to 11 percent of the total school population. This double weighting formula was derived from research showing

special education costs per student to equal approximately twice the cost of regular education (Moore, Strang, Schwartz, & Braddock, 1988). National and state census and cost data, along with state data showing relatively even distribution of children with disabilities across Oregon school districts, were also used to arrive at the final formula.

This new formula has a number of features that distinguish it from the previous distribution system. It is designed to be neutral with regard to disabling condition and placement. Furthermore, it does not require districts to engage in any more paperwork than that required under federal law, and thus has significantly reduced the paperwork burden created by the prior system. The new formula also does not require that the funds targeted for special education be used only on students with disabilities. The intention of this feature of the law was "to provide schools with the funds necessary to educate all students, whether disabled or not" (Brazeau, 1993).

In addition to enhancing equity, the state's objectives for reforming the special education funding system included simplicity, efficiency, reduction of paperwork, and placement neutrality. Several people also acknowledged the state's objective to maximize local flexibility, as evidenced by the pooling of district funds to serve *all* children, and the removal of incentives for more restrictive special education placements. One local director said her view of the objective of the reform was "to quit haggling over what kids were and what they need." A parent described it as an attempt "to put them [special education students] on a more equal basis compared with other students in education . . . but with extra funding."

Politics of Reform: Narrative of Oregon State Director, Karen Brazeau

In Oregon, beginning a meaningful discussion of reform made it necessary to move away from the concept of a *funding* formula and to begin thinking of it as a *distribution* formula. There is never "enough" money, and therefore it seemed important to move the discussion away from one of general inadequacy to how to distribute available funding in the most equitable and efficient manner possible. Thus, the first step in enacting change in Oregon was *setting the stage* for special education finance reform. This was followed by principles related to the importance of *timing*, the effective use of *power*, and the need for *nurturing*.

To a large extent, the elements of "setting the stage" occurred long before it was evident that there were clear opportunities for reform. This began with quiet discussions with people of power about the inadequacies of the prior system and a general airing of ideas relating to possible change. Karen Brazeau described a significant aspect of this process as follows:

> One of the finest moments in my career was when an important school lobbyist appeared before our legislature to argue that the schools needed to serve all children and that it was important not to have separate systems for kids with disabilities. The fact that people who had more power and leadership in the full educational arena than I were saying these things was very gratifying.

In regard to the importance of *timing*, Oregon was not able to make changes in its special education finance system until there was a real crisis with school funding in general. Oregon had passed a tax limitation measure that had a devastating effect on the state's social service system and schools. However, this fiscal crisis also presented an opportunity to take advantage of the attention raised by the larger problem to focus on a solution for a small piece of that problem. The old funding system was an excess cost method that generated about 9 cents on the dollar and cost local districts about that much to produce the related paperwork. "The whole thing had fallen apart so much that the timing was ripe for change."

The importance of *power* in relation to these circumstances was a recognition of the need for some key constituents, including the state director, to recognize the importance of relinquishing some of their power in relation to state special education funding. Under the old system

> . . . a conversation couldn't go on for more than about 3 minutes unless I was in it because I knew more than anybody else in the state about it . . . I have to admit that when we changed the system I flinched a little bit. I was giving away a tremendous amount of personal power because our (present) system is so simple anybody can understand it. Also, one of the real jobs I had was convincing some of our lobbyists that they wouldn't be out of a job. We had so many little pots of money, it created lots of opportunities for lobbyists to come in and argue for their particular cause.

A remaining requirement relating to the politics of special education finance reform is for ongoing *nurturing* once the measure is passed. One element of this is the need for facts. No matter how generally beneficial the reform is, exceptions will exist, as will horror stories of adverse effects on individual children and districts. "You have to face up to some of the problems that every system has created, but I think the point is to try and deal with exceptions as individual cases, and not to try and build an entire system around them."

Beyond this, the special education communities across the states need to support one another in the changes to our financing systems that we believe need to be made. In Oregon,

> . . . in the beginning stages of changing our funding formula, one of the real problems I had was that the finance gurus in regular education would look at what every other state had done and propose it to our legislative leaders as a model. I knew that most of you were not happy with those models and were working to change them. I didn't have anybody to turn to who could come and help with what we were trying to do.

In summary, special education finance reform can be a slow and difficult process. First, you need a set of good ideas that are well suited to the particular circumstances of your state. Then you have to consider some of the issues related to setting the stage, timing, power, and the need for nurturing as described above. Perhaps the most frustrating part is when the need for immediate change seems so apparent and you come to realize that the change process can often take a great deal of time.

III. Pennsylvania

Background of Reform

Until recent reforms were implemented for the 1991-92 school year, Pennsylvania was the only state in the nation funding 100 percent of the "excess cost" of educating children with disabilities. In addition, Pennsylvania has had a strong history of providing special education services through regional service agencies. In 1991, these intermediate units still operated programs for the many students whose districts did not provide their own programs.

The state's special education funding system fostered continuance of this regional system for providing programs. For example, it treated intermediate unit programs differently from school district programs in the way excess costs were defined and funded. Although regular school districts only received state funding for the excess costs of special education, intermediate units received payment for the full cost of these services. Authorized district costs did not include administration and employee health insurance. In addition, unlike regular districts, the intermediate units received state funding in the year of program operation. Such policies contributed to the growth of intermediate units as the principal providers of special education services in the state.

During the 1980s, despite massive enrollment declines in Pennsylvania's general education school-age population, the state experienced substantial growth in the number of students served in special education programs. Many districts relied exclusively on intermediate units for special education services. In 1987 and 1988, studies conducted by the House Education Committee and the state Secretary of Education revealed problems within the special education system. The problems included "too many referrals for special education evaluations, too long a wait for evaluations, too many placements in programs for mild learning

disabilities, too little movement back to regular education programs, too much segregated programming, and too little connection between special education programs and the 'regular' programs from which children were referred and to which, presumably, they were being prepared to return" (Feir, 1992, p. 5). Increasing costs from the growth in special education enrollments put a strain on the state budget. In 1987-88, the state was $50 million short, and by 1988-89, the deficit had grown to $104 million.

In the spring of 1989, the state legislature sought a solution to this funding crisis. Unable to reach consensus before the June 30 budget deadline, the legislature appropriated the additional amount ($104 million) for the 1989-90 school year, and passed Act 43 on July 1, 1989. Act 43 required the state Board of Education to approve and adopt measures by March 1, 1990, "to assure fiscal accountability; prudent management; appropriate education support services and special classes to meet the needs of pupils; and assurance of continued service to children receiving special education instruction and services" (Act of July 1, 1989, P.L. 253, No. 43).

Between July 1989 and January 1990, the State Board of Education's education committee conducted eight public meetings, and the Board held four public hearings in an attempt to revise Pennsylvania's special education program and fiscal regulations. New program rules took effect on July 1, 1990. The most significant programmatic change was the emphasis on the instructional needs of students. This was reflected in the requirement that an instructional support team (IST), comprised of the student's teacher, the principal, and a specially trained instructional support teacher, be the first to intervene and develop instructional strategies prior to referral for a special education evaluation. Although this required the dedication of additional state resources, the phase-in of ISTs was expected to pay for itself within 10 years if it resulted in a 25 percent reduction in learning disability placements. During 1990-91, the first full year of implementation, 191 school buildings had ISTs in place, and these schools experienced a *48 percent reduction* in special education placements compared to the previous year.

In early 1990, the Governor proposed an alternative to the excess cost system. Due to intense lobbying from intermediate units and school districts, the General Assembly failed to act by the spring of 1990. As a result, the 1990-91 budget included only enough money to pay intermediate unit programs that year, plus $89 million dollars to pay prior year obligations to school districts. The legis-

lature made no commitment regarding state special education obligations to districts for 1990-91.

In August 1991, a new funding formula for special education was finally adopted. This system gradually reduced direct state support for intermediate units; rather, funding was to be provided directly to districts based entirely on the average daily membership (ADM) of all students. Because serious revenue shortfalls and the recession complicated state budget development at this time, the General Assembly was forced to enact the largest tax increase in the state's history. As a result, the 1991-92 school year was one of transition, with special education funding provided by a combination of the old excess cost system and the new census-based funding system.

The new funding mechanism for special education was designed to end fiscal incentives for special education placement overall and specifically for the use of intermediate unit programs. In addition, the new system was intended to give districts greater control over special education program and funding decisions, thereby decreasing district reliance solely on intermediate units. In combination with such programmatic reforms as mandating instructional support team intervention prior to identification for special education, the new system represented a major change in the philosophy of financing special education and a concerted effort to empower school districts, as well as control runaway costs.

In a series of interviews conducted by the Center for Special Education Finance (CSEF) staff with special education constituents throughout the state, the basic issues driving reform were described as rising costs, increasing special education identification rates, insufficient local control, and unpredictability. With regard to rising costs, the excess cost system had provided no incentive to control expenditures, and as a result, one respondent reported that the state was "spending money it didn't have" and handing "blank checks" to districts. Respondents also acknowledged that this pattern of spiraling costs had been occurring for years, with the state bearing the burden of "runaway" costs. Revenue shortfalls seemed to plague special education funding, with the annual funding commitment for special education in Pennsylvania growing greater than the revenues appropriated. In essence, the state was forced to use "next year's dollars to pay this year's bills," a trend that was expected to worsen in future years.

With its promise of virtually unlimited reimbursement for special services, the excess cost formula was also seen as providing an incentive to identify and maintain students in special education. An instructional support coordinator in her 22nd year of teaching remarked,

> Since I started teaching, there has been an incredible increase in the identification of special education students. Something had to be done. People were placing kids in special education for lack of anything else to do with them; and once in, not a lot was being done to 'due process' them out of special education. What was originally to be a 2-year remediation program, in many instances became a life sentence—and these "many instances" became the norm.

Due to the direct funding of intermediate units, lack of local control was also seen as an important problem. A number of respondents expressed concern that, under the old system, districts had essentially forfeited much of their control over special education programs and services. Districts lacked involvement in the planning of students' special education services, which created a disincentive to view special education children as belonging in neighborhood schools. One parent stated, "The way the money was handed down, the school districts didn't see any obligation to keep an eye on services or kids—they were able to wash their hands of it."

Many district directors and policymakers referred to the excess cost formula's lack of predictability as a primary area of concern. Although intermediate units received advance funding of approved costs, districts often faced having to fund any shortfall in their budget request from their own funds for up to 2 years. The system was further aggravated by a rule causing school districts to lose subsidy payments for legitimate excess costs if the actual special education instructional cost was greater than the budgeted amount. This provided an incentive for districts to inflate their budget estimates so that the actual amounts were always less than budgeted.

Less restrictive service provision, such as inclusionary practices, were inhibited under the excess cost system. Students were counted in full-time-equivalent (FTE) average daily memberships, with the net effect of crediting special education only for the time that students were in special education programs. This created a fiscal incentive to maximize the percentage of time students were

in special education settings. These regulations additionally imposed a burdensome bureaucratic procedure on districts to monitor each student's FTE time in special education on a weekly basis for annual accounting purposes.

Politics of Reform: Narrative of Pennsylvania State Director, Michele DeSera

We had two primary objectives going into reform. We wanted to be able to predict and stabilize cost and we wanted to affect practice. The importance and relevance of fiscal reform on practice often gets overlooked, because the people who make these funding decisions are members of the General Assembly, who tend to focus only on fiscal concerns.

This discussion of the politics of reform focuses on six factors that led to our ability to make the kinds of changes we wanted for the state. The point of this discussion is to describe "how politically we were able to pull this off, because it was a great feat."

First, the enormity of the problem encouraged people to take this type of risk. There had been a history of over 8 years of shortfalls in special education funding. When, in 1990, the administration decided to take on this issue, we were able to go the General Assembly and report a $99 million deficit in special education funding. No one had really brought this problem to their attention, and they were appalled with it. Although we were able to convince them to pay off that shortfall, in less than a year we were back advising them of a new $58 million shortfall in addition to the half billion dollars in state aid already being directed to special education services. At this point, it became clear to all that the current system was no longer working.

Second, the political scene had to be correctly aligned. The Governor, Senate, and House were all dominated by the same party, providing us with a common direction and mission. This certainly made the formidable task before us much easier. However, in addition, we worked hard to get the political groundwork established.

> You need to line up key legislators who will fight for the reform, and to secure agreement from others not to work against you. There are certain people that everybody pays attention to in every

> state in terms of the General Assembly. They either have to be for you or back off and not work against you.

The third factor is public relations. Well-developed briefings were held with a set package that at first only the Secretary of Education would address. Next, the Commissioner and then the state director became involved in these public discussions. Eventually, a core of key spokespersons made presentations across the state informing audiences of the proposed reform and its benefits.

> Because it is so easy to argue against special education finance reform, if you don't get out there and present the case for it other people are going to very easily shoot it down and build a case against it. It's really important that your key legislative leaders and their key staffers understand what you're trying to do. Unless you can break it down in a way that is easy to understand and they can grasp, you are going to have problems.

Fourth is the construction of the specific details of the formula and the recognition and acknowledgment of the political realities that will be needed to get it passed.

> We had a formula fully developed, and the weekend before it was going to come to a vote, the Secretary of Education called and said, "This thing won't give me enough votes. By Sunday night, I need enough votes to get this thing passed." We found that it wasn't working for the Senate Majority Whip's school district. However, when we looked at the underlying issues more closely, we found that it wasn't working for a whole group of school districts like his, so it really was a very good point. Instead of rewriting the whole formula at the eleventh hour, we added a component to deal with that group of districts being treated unfairly in the formula. What can I say, it must have worked because that was the formula that passed.

A fifth important point is that what was done in Pennsylvania was done within a greater context of reform. This began in 1989-90 by facilitating the development of inclusionary models throughout the state. In 1990, the regulations and standards were revised for the first time in 14 years. This was done knowing that finance reform was imminent. This finance reform was followed by a movement toward competency-based education in 1992. Including special education finance reform

as a component of a broader array of statewide reform efforts seemed to make it more saleable.

Last, the reform was followed by an independent research effort to analyze the impact of these changes. This report showed costs being contained, and only a slight decrease in the number of special education teachers and students (Hartman, 1993).[1] These findings turned out to be very useful in reporting back to the General Assembly and showing them controlled expenditures in the absence of significant side effects.

> In summary, good luck to anyone taking on such reform. It's a long tough battle, but we believe that it has really created wonderful change for the students we serve. We are very happy that these new fiscal provisions are now promoting what we believe are the best practices we are trying to develop in all our schools.

[1] A followup to this initial report can be found in *A Continued Analysis of Pennsylvania's New Funding System for Special Education* (Hartman, 1994).

IV. Vermont

Background of Reform

In 1990, the state of Vermont implemented Act 230, a broad educational reform law with major implications for special education funding and services. When Act 230 was passed, Vermont was leading the nation with more than 80 percent of its special education students placed in regular classes (Kane, personal communication, 1993). With the overall goals of increased equity, predictability, flexibility in program design, and placement neutrality, specific objectives of the new special education funding system included increasing the use of prereferral services for children with diverse needs and the inclusion of children with disabilities in regular classes.

Some of the historical context for reform was that Vermont had a history of relying on various versions of basic reimbursement systems for funding special education services in the state. However, by the mid 1980s, appropriations from the legislature had begun to fail to keep up with rising costs, and state funding was withdrawn from the support of mainstream aides, mainstream special educators, and transportation services. In 1986 and 1987, recurring funding problems reached a critical point when the state was forced to reduce the funding expected by local districts three times in a period of 2 years.

To address these issues, then Governor Madeleine Kunin created a special commission to examine the impact of the special education funding formula and to make recommendations for change. The 11-member commission included persons appointed by the Governor, the Legislature, and the State Board of Education. Public hearings were held in seven areas of the state, and the commission spent more than 30 hours listening to testimony from invited experts and interested individuals and groups. The commission reported that S98

(enacted in 1971) lacked predictability, flexibility, and equity, and recommended that a new funding system be put in place. As part of its task, the commission identified a number of principles to be used in testing the merits of any forthcoming funding proposals:

- Special education funding formulas should strive for equity among districts with respect to ability to pay.
- School districts should not have to bear alone the catastrophic costs of residential placements or other extraordinary services.
- There is a shared state and local responsibility for providing a continuum of services in all regions of the state.
- Funding should support the placement of students in least restrictive environments.
- Appropriate transition steps should be planned before any new formulas are implemented.

Goals to be achieved by the new funding formula were also established by the commission and included: predictability; flexibility in the use of state funds; basing funding on actual costs to the maximum extent possible; sufficient funding to enable districts to keep caseloads within the maximum limits established by the state; and not discriminating against rural remote areas with low student enrollments.

In addition, the commission recommended that

- Standard cost accounting procedures be put in place in all school districts
- Unmet needs be identified and a plan developed to address them
- Interagency interactions be identified and improved
- Funding and approval of private schools be reviewed

- A state supported mediation system be developed (Kane & Johnson, 1993)

As a result of the commission's findings and recommendations, Act 235 was passed in May 1988, with far reaching changes in the way special education was funded. Act 235 established a three-part system in which the state and local districts were to share equally in the overall costs of providing special education services. The new formula no longer funded specific programs; instead, it reimbursed districts for portions of their special education expenditures, after distribution of a block grant based on the number of students eligible for special education. Districts received the same reimbursement regardless of student placement in local schools, regional classes, or residential facilities. "Almost immediately, most of the regional special classes disappeared as students were returned to their local schools" (Kane & Johnson, 1993, p. 5). Although placement neutral, this formula still provided an incentive for identifying students as eligible for special education, as the block grant based on the number of special education students identified was the only sure way for a school to get funds to provide support services for students.

As of July 1989, the state no longer directly funded the commissioner-designated regional programs, and it was left up to the supervisory unions/districts to decide whether these programs continued as regional collaborations. Also, the extraordinary and intensive sections of the funding formula ensured that every district received some reimbursement for every allowable special education expenditure. This provided protection against catastrophic expenses and gave districts "maximum flexibility to develop new programs and receive reimbursement" (Kane, 1988).

In 1990, Act 230 took the "next logical step," changing the funding system so that the block grant portion was based on total student membership rather than special education student counts (Kane & Johnson, 1993, p. 6). It was also different from Act 235 in that it allowed funds to be used on remedial and compensatory education. The primary goal of Act 230 was to increase the capacity of schools to meet the needs of all students. This was accomplished through staff development opportunities, changes in the special education funding system to add flexibility and remove incentives for identifying students as eligible for special education, and by restructuring at the school level to develop a more comprehensive system of educational services. Act 230 called for implementation of a schoolwide Instructional Support System (ISS) for early

identification of at-risk students and for school-level Instructional Support Teams (ISTs) to support teachers in collaborative problem solving of classroom issues. Act 230 also set aside 1 percent of the state special education appropriation for inservice training grants to school districts. The new system allowed districts complete latitude regarding the use of funds, so that configurations of services across the state developed uniquely in each district (DiFerdinando, personal communication, December 1993).

In 1993, a new ruling became effective that established core staff levels for each district. This ruling ensured that districts would not be penalized with reduced state funds if they decreased their identification rates, and explicitly stated that funds could be used to provide remedial services. This rule established a core staff level of special service providers for each district. As a result, special service providers' salaries and benefits are now reimbursed as special education expenditures as long as they are providing special (per Individualized Education Program [IEP]s), remedial (under instructional support team plans), or such other services as direct and consultation services. Each district's core staff level is established by the Commissioner of the Department of Education and is based on the average number of FTE licensed special education teachers and special education program aides providing mainstream special education services during the school years 1990-91 and 1991-92. Reimbursement for additional special education staff beyond the core staff level is subject to annual approval, and only the portion of time that is spent on special education and reported as eligible special education cost can be reimbursed. The annual approval is meant to allow for control over special education costs and to prevent districts from reassigning "core staff" to duties outside of special education and then hiring other staff to provide special education services (Schelley & Kane, 1993).

Vermont's current special education funding formula has three separate components: mainstream block grants, extraordinary services reimbursement, and intensive services reimbursement. These components are summarized below.

■ Mainstream Block Grant

- Based on the number of students in each district.
- State share = 60 percent of average statewide salary for 1.75 speech/language pathologists per 1,000 ADM, 3.5 learning specialists per 1,000 ADM, and 1 administrator per 1,500 ADM.
- Block grant may be expended on any allowable remedial or compensatory services.
- Local funds must equal 40 percent of the core service cost for special education services.

■ Extraordinary Service Reimbursement

- 90 percent of extraordinary service costs—defined as allowable expenditures per student that exceed three times the foundation cost ($12,390 in FY95).

■ Intensive Services Reimbursement

- Reimburses special education expenditures not covered by federal funds, state block grants and local match, and extraordinary costs. Funds are reimbursed based on each district's intensive service reimbursement rate.
- District's reimbursement rate takes into account each district's ability to pay, with a 55-point range (1.55 - 56.55 percent in FY95).
- The share level is adjusted annually to assure that the state's share across all sections of the formula is 50 percent.

In addition, Act 230 sets aside 1 percent of the state special education appropriation to be used by school districts for staff development. These funds are allocated through grant application and are used to increase the ability of staff to educate all students. Also, in a direct attempt to discourage districts from litigation, Vermont has chosen not to reimburse legal costs. The Department of Education does, however, provide mediation services to parents of students with

disabilities, adult students with disabilities, school districts, and educational agencies involved in special education disputes.

While Act 230 represents a shift in policy, it has clearly been impacted by Vermont's history and tradition of small rural schools, local control, strong advocacy support, key leadership at state and local levels, and the higher education system's investment in staff development since the 1960s. "While implementing Act 230 has and will provide Vermont with many challenges, it was not a seed sown on barren ground. Seeds of the Act 230 direction, of educating students with their peers in their local schools, can be traced back over 20 years" (Kane & Johnson, 1993, p. 4-6).

Act 230 has undergone close scrutiny at the state and local level with an ongoing statewide evaluation of its impact on students, staff, and services. At the onset of reform, it was recognized by the State Department that it would be important to monitor its effects.

In December 1993, the Vermont Department of Education published the results of an evaluation of the first 3 years of implementation of Act 230. The study found a decline of more than 17 percent in the number of students receiving special education over these 3 years (Kane & Johnson, 1993). Most students taken off IEPs were those identified as having mild learning or speech/language disabilities. The performance of these students was judged to be comparable or better in some areas than when they were identified and provided with IEPs. There does not appear to have been a significant shift of students from out-of-district segregated placements to regular classrooms. However, when Act 230 was passed, Vermont was already leading the nation with 83 percent of its special education students placed in the regular classroom.

Instructional Support Teams (ISTs) have been formed in every school, and many special services have been integrated into the regular classroom, expanding the role of special educators to serve more students. Of the students referred to ISTs, 93 percent were judged as having received adequate support. The paperwork burden decreased significantly, allowing for more student contact time; and the system is considered to be more flexible, with collaborative planning, team teaching, and cooperative learning on the rise.

Remaining challenges identified by the report include obtaining stable and adequate funding, supporting schools' efforts to change, continuing staff

development, increasing parent participation, and addressing the needs of students with behavioral and emotional problems.

More recently, a special education funding and cost evaluation was completed in January 1995 by the Vermont Department of Education with the help of local educators and University of Vermont education scholars. This study found that schools continue to struggle to meet the challenge of the reforms introduced by Act 230. In particular, two factors were reported to have had a significant impact on the implementation of this reform effort during the period from 1989-1993: (a) the increasing demands placed on schools due to the long term and steady rise in the number and severity of students' needs and (b) the strains on regular education systems due to an increase in student population (from 96,892 to 102,674) and a decrease in the state funding share of total education costs (from 31.8 percent to 27.8 percent).

Since the enactment of Act 230 in 1990, there has been an 18.4 percent reduction in the special education child count. By December 1994, however, for every student eligible for special education, between 2 and 2.5 students who were not eligible were receiving support from special education staff funded by Act 230. Overall, 32 percent of all Vermont students were receiving some form of support under the state's special education funding provisions.

Although the results from this recent evaluation indicate that schools are making changes that benefit all students, and that Act 230 appears to have accomplished much of what was intended with respect to special education reform, an unanticipated result of the implementation of Act 230 has been an appreciable increase in expenditures that is projected to continue through FY 1996. Seventy percent of the $24 million increase over the past 4 years has been in salaries and benefits for special education staff. A significant part of the overall increase in spending is in the extraordinary cost portion of the formula, due to a 41 percent increase in the number of students eligible for extraordinary cost reimbursement. Another significant portion of the increase in expenditures can be attributed to the increase in the number of individual aides, which has increased from 470 to 1,005 in 4 years. School districts also reported, however, that the costs of alternatives to hiring individual aides, such as special class or residential placements, would be even higher. Nonetheless, districts have had to bear the brunt of the increase, shouldering the burden for $14.5 of the $24 million total increase in costs between FY 1990 and FY 1994.

The 1995 report makes recommendations for addressing the trend of increasing student/family needs by building the capacity of schools and communities to deal with diverse needs, and developing alternatives for the most behaviorally challenging students and others who are not being well served by the current range of available options.

Politics of Reform: Narrative of Vermont State Director, Dennis Kane

When you want to make big changes, one of the things you have to deal with is the fear of parents and families about how that is going to impact on the individual student. For example, what is going to happen to children receiving special education programs if we allow more flexibility and even go beyond inclusion to not have to count students as eligible for special education in order to receive special education funding? For this reason, Vermont started evaluating their reform from the day it was passed with a careful view at its effect on students and the services they receive.

> We started to track individual kids, to ask the question, is this child doing well? Is the child being included in the regular classroom? Is the child receiving needed services, even if it is not necessarily within special education? Is the child doing as well as before the change? If there is one thing I would recommend for people to do is to start that evaluation process early on. You need to know where you're going and you need to know what it's going to look like when you get there. You need to be able to tell people that you're going to be out in front watching for the benefit of the individual child, and individual families. The idea of any funding change is not just to distribute money in a better way, but to end up doing better things for kids.

Another important thing to know is that fiscal reform in Vermont has been an ongoing process. Once we began to decouple direct funding of programs from special education count, some districts started to lose money because they began serving more students outside of special education. This led to a second set of changes so districts would not be punished fiscally for doing what the state had been asking of them. Now the state is pursing a third set of changes. As you approach your goals, they become clearer, and for these reasons continuous

adjustments may be needed to ensure that you stay on track. That is, the goals should govern needed changes in the formula, rather than enacted changes becoming ends in themselves.

> So I guess there's one political tip I have: you really have to get that goal out there almost as a philosophy so that the funding formula doesn't become the end. The goal becomes the end and as a result the changes that are needed to reach it may need to be examined over and over again. That really helped us in Vermont, having that goal in mind. Every time the legislative committee met, we were able to hold that goal out and make the changes needed to get there. In pursuit of this general goal, we made our initial changes and have made lots of other changes since.

A major goal in Vermont was to change the traditionally categorical nature of the system. However, as a result, some power seems to have been lost. We had become very good at generating support when we could point to clearly identifiable and separate groups of kids and services. Now it has become important to find new effective ways to make the case for the needed resources to serve all students with special needs in more integrated, seamless schooling environments.

> Before, we could fill a bus with kids with disabilities, their parents, and other advocates and ride up to the State House and talk about one specific program. However, if we decide that categorical solutions aren't going to be the name of the game in education, we're going to have to figure out new ways of drumming up support. That's why I think outcomes and evaluation must be a focus from the beginning. We need to be able to teach decisionmakers from the local, state, and right up to the federal level, not to focus on the crisis of the day, but on final outcomes and solutions. That's the road we have attempted to take in Vermont.

V. Cross-State Reform Questions

- *In census-based funding systems, as found in Pennsylvania, how do you account for districts that are likely to have more students with special needs, such as large urban school districts? It is my understanding that with this type of formula, these kinds of districts end up getting less while districts with fewer special education students end up getting more.*

  In Pennsylvania, our formula needs finetuning as it relates to large urban schools. However, I don't know what you mean about some got more and some got less. It's a flat formula based on school district population. There are two ways that I deal with questions relating to specific districts with very high percentages of special education students. First, I don't think that throwing more money at these kinds of districts is the answer, but that we have to do things differently with these students. We've implemented instructional support teams to try and deal with the overidentification of students in special education and to serve student in other ways without necessarily having to label them and put them in special education. Second, part of our appropriation is in the form of a contingency fund. Any school district with extraordinary special education expenses can apply to that fund to deal with these kinds of exceptions. For example, we have situations where we have group homes or very large populations of kids with specialized types of needs that might be handled in this way.

- *When did special education finance reform take effect in each of your states and what has been the resultant impact on the statewide special education identification rate?* (NOTE: As the Vermont and Pennsylvania special education finance reforms largely, or

completely, decoupled funding from the special education student count, they could be expected to create an incentive to generally reduce the overall percentage of students identified for special education services. In Oregon, this type of decoupling does not occur until the identification rate begins to exceed 11 percent. Thus, in Oregon, a fiscal incentive for identification rates to decline only exists in districts identifying more than 11 percent of their student population for special education.)

> In Vermont, initial funding change happened in 1988, with the second round of change, Vermont's Act 230, starting in 1990. It was Act 230 that initiated the full instructional support system and which really decoupled the funding from the special education student count, so we've had 4 years. Our special education child count has fallen by about 18.4 percent over this time period.
>
> In Pennsylvania, although we initiated our current funding system in 1991, it wasn't fully implemented in that first year in that there were still some remnants of excess cost. The first year of full implementation was probably 1992-93. While the child count has decreased, it has been minimal, around 2 to 5 percent. In addition, we think that this reduction has been due to things other than the finance formula, such as other changes in our regulations, looking at staff and children differently, and serving children before they become identified through special education.
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> In Oregon, this is only the second year of our new funding formula. Although we haven't seen an overall rise in the state count, we have seen changes in individual districts. As already described, no formula is without some kind of incentive or disincentive, and I had hoped that our formula would be a percentage of ADA rather than based on child count, as found in Vermont and Pennsylvania. However, I lost this argument. I just could not politically sell it. Interestingly, there was a fear of underidentification in our state. For example, some of our legislators, who had kids with learning disabilities were really concerned about this. As a result, our funding is still based on a child count with a cap of 11 percent in each district. Rather predictably, what we've seen is that those districts that had more than 11 percent are reducing their child count, while those that

had less than 11 percent are increasing their numbers. My fallback position has been that pretty soon everybody in the state will be at 11 percent and then it won't matter.

- *Important questions about the equity of these new kinds of funding systems are sometimes raised. To what extent do your new funding systems move away from basing funding on variations in true cost, and to what extent do they provide wealth equalization for rich and poor districts?*

  An important side benefit of our changes in Oregon was the fact that the reform did address some of these equity issues. Our prior system was an excess cost formula, and what we found is that the richest school districts that were able to spend the most got the most back in return through reimbursements. In contrast, the formula we now have is part of the greater school funding formula and takes into account all of the equity issues. We fund special education with a single weighting factor (2.0) within the entire school finance formula. A real problem with the previous formula is that it did not take relative poverty or wealth into account.

  In Vermont, we have three parts. First, there's a block grant that is based on ADM. In addition to special education, that money can be spent on instructional support services, despite the fact that it is part of the special education formula. The second part of the system is an extraordinary cost component similar to Pennsylvania's in that once the cost for serving an individual special education student exceeds a certain amount, sort of a deductible, the state pays 90 percent of the difference. The third part is called intensive reimbursement, and that's where the wealth factor is included. Any expenditures that are allowable, and that includes nonspecial education support activities, are reimbursed by a percentage factor that is based on wealth. So there are three tiers to our funding system, with the last tier being adjusted to account for district wealth.

  In Pennsylvania, when we first drafted the special education funding formula, we had an aid ratio factor, which meant that the wealthier districts got less money than the poorer districts. In my estimation, this is what we should still have, but our current

special education aid formula no longer considers wealth within the larger context. However, we do have a class action equity suit filed by rural school districts, which is coming to the forefront, and special education will probably be considered within the context of this legal action. There is also a component in the legislation for 1994-95 that allocates a bit of additional money to districts once they have reached 150 percent of the statewide average net special education expenditure. Unfortunately, this does exactly what we don't want in terms of equity, because the high spending, or wealthier, districts pay their teachers more. Consequently, this component will be likely to drive money to the wealthier districts instead of the districts that need the money more. I'm personally very upset about that component in next year's formula.

- *What are the state, local, and federal funding shares in each of your states?*

In Vermont, our formula says that on average the state and local shares will be approximately equivalent, although this breakout will vary by individual district. Generally, however, the state legislature has not elected to meet this standard. Right now the state share is about 45 percent of the total, less federal support.

In Pennsylvania, I know that our federal piece is less than 10 percent. Most of the residual is state dollars, and although there is a local share, I'm not sure how much this is. We don't have special education budgets anymore, so it's a bit hard to tell you that, but my guess would be somewhere around 60 percent of the cost, after the federal contribution, comes from the state.

Prior to the reform in Oregon, the state and federal pieces were both about 9 percent, with the rest of the costs being met locally. After the state property tax limitation measure passed, this ratio has switched dramatically and other than the federal funds, special education is financed almost entirely by the state.

- *To what extent do these special education aid amounts go directly to school districts as opposed to the local community; and once school districts get the funds, to what extent are they required to spend them exclusively on special education programming?*

  In Oregon, the funds flow to the school district, and the requirement is that they be spent on schools. The state's position is that districts have differing costs and different populations and that we really haven't addressed these differentials very accurately through the single weighing formula. Thus, all of education aid is considered to be a block grant going to the school district. Once there, the local district has complete range over how they will spend these funds. In fact, a major concern of our advocates is that we need to know to what extent our special education dollars are actually being spent on special education services. That's one of the things we are trying to look at, but this type of issue cuts both ways. That is, when we had unique categorical special education budgets, I often heard complaints from local directors that they often could not get additional funds when they needed them. Under the current system, at least theoretically, the schools are required to address the needs of all their kids. If it costs more for a given population of students than the state formula allocates in a given year, that's the schools' responsibility.

  In Pennsylvania, all state education aid goes directly to school districts. While regular education funds come in the form of a block grant, special education funding is categorical.

  In Vermont, both state regular and special education aid go to the individual towns/districts. They are required to spend their special education dollars on a list of defined, allowable cost items, which now include such things as remedial services that are beyond special education. As was said about Oregon, when we moved in this direction in Vermont, the data became less available for individual categories of kids. It sounds like Vermont is somewhere in the middle of Pennsylvania and Oregon in this regard. As some children start receiving services without being labelled and as the tracking of dollars to very specific programs becomes less precise, you lose some information. This is one reason for the importance of the type of program evaluation we

have conducted in Vermont, as described earlier. This type of followup becomes particularly important because you have to plan to work around that difference in the availability of data.

VI. Summary and Conclusions

This paper has presented some perspectives on the politics of special education finance reform in three states with successful implementation. Several common themes emerge from the three sets of perspectives. In each of these three states, *timing* seems to have been an important factor. Pennsylvania's director reported that "the enormity of the problem itself led people to take the risk and deal with it." Oregon policymakers were unable to make changes until they had a "real crisis in hand with school funding in general." Vermont reported working on issues related to inclusion for over a decade before realizing the extent to which the old finance system may have been an obstacle. In addition, Vermont has worked through three separate phases of finance reform to get where it is now. The message seems to be that even though the need for change may seem clear, countervailing pressures against change are always present and are generally formidable. *Timing* appears to be an important factor in overcoming these pressures and successfully implementing special education finance reform.

Public relations seem to be a second important feature of successfully legislating reform. In all three states, broad-based initial involvement was followed by well-developed briefings across the states. As reported by Michele DeSera of Pennsylvania, "It's really important that in the public relations period your key legislative leaders and their key staffers understand this—it's a very complicated issue."

An understanding and resolution of the *politics* of the situation is reported as another key factor. In Pennsylvania, last minute adjustments to the proposed formula were needed to avert its political demise. In Oregon, it was necessary to convince lobbyists that it was in their best long-term interests to relinquish some of their power by demystifying and simplifying the formula. In Vermont, the political issues that were raised related to the potential loss of political power

after the formula was made less categorical. The politics of obtaining the required levels of funding for special education services have often traditionally relied on easily identifiable categories of children with special needs and their parents.

The retention of political clout in a less categorical world seems to lead to the last common element of successful reform, the need for *postreform evaluative data.* All three of the reform states featured in this report moved to simpler funding approaches that were much less tightly tied to program costs as a basis for funding. All three reported a general loss of information in accordance with the adoptions of such systems. With more flexibility in the use of funds and more students receiving services on a prereferral basis, the states generally had a much less clear picture of exactly how many students were receiving services, as well as the exact nature and cost of these services. As a result, all three states reported the need for alternative data sources as well as for different types of information.

As reported by Dennis Kane of Vermont, "I would recommend for people to start an evaluation process early on. Because the final purpose of any funding change is to end up doing better things for kids, you need to be able to demonstrate increased benefit for individual children and families." In Pennsylvania, state special education finance reform was also followed by an independent research effort. "This was a very good tool for us in going back to the General Assembly." Karen Brazeau of Oregon comments, "It is important to be able to come up with facts, because there will always be horror stories . . ." about how some districts were negatively affected by reform.

Over half the states in the nation are currently grappling with some form of special education finance reform. Discussions with special education leaders in many of these states suggest that more than good ideas are needed to successfully legislate change. The purpose of this paper is to convey some lessons of the politics of special education finance reform as reported by three state directors who have been successful in passing special education finance reform legislation in their states.

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